

Fund Factsheet

VT Argonaut Equity Income Fund

At 31 August 2024

Barry Norris
Fund Manager



Barry Norris founded Argonaut in 2005 and manages the VT Argonaut Equity Income Fund using his "earnings surprise" investment process. Barry began managing money in 2002 at Neptune, having begun his career at Baillie Gifford. He was educated at Cambridge University and has an MA in History, and an MPhil in International Relations. He also holds the CFA charter.

Fund aim

The Fund aims to provide an income (net of fees) in excess of the yield of the European market (as represented by the IA Europe ex UK sector) with capital growth over any 5 year calendar period.

Fund overview

Benchmark	IA Europe ex UK			
Launch date	30 December 2016			
Dividend Yield*	2023	2022	2021	2020
Fund:	6.43%	4.35%	3.79%	7.04%
IA Europe ex UK:	4.66%	3.46%	1.72%	2.17%
Historic dividend yield²	6.25%			
Fund size	£3.9m			
Share class	Class R			
No. of holdings	27			
Bloomberg	R (Acc) - FPEIORA LN R (Inc) - GBO0BDSFHG21			
Sedol codes	R (Acc) - BDSFH3 R (Inc) - BDSFHG2			
ISIN	R (Acc) - GBO0BDSFH38 R (Inc) - GBO0BDSFHG21			
Ongoing charge (as at 31/12/23)	R Class Shares - 0.85%			
Minimum investment	£500 (R Class Shares)			
Minimum top up	£250 (R Class Shares)			
Regular savings scheme	Yes (R Class Shares)			
ISA option available	Yes (R Class Shares)			
XD/Payment dates	01.03/15.04, 01.06/15.07 01.09/15.10, 01.12/15.01			

*Morningstar, 31/08/2024: Calculated by subtracting the total return, net of tax, from the capital return.

All information as at 31/08/2024, unless otherwise stated and measured against the fund's benchmark index.

Investor information – This fund may not be appropriate for investors who plan to withdraw their money within 5 years.

Fund Commentary

"The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks."

Jerome Powell, Jackson Hole, August 23rd, 2024

The fund returned -3.1% over August, compared with the IA Europe ex UK sector which returned +1.2% and the income peer group average of +1.0%.

The best performing longs were reinsurance behemoth Swiss re (+8%) and tanks and ammo outfit Rheinmetall (+8%). This was offset by losses on Avance Gas (-24%); Eramet (-14%), Seadrill (-18%), which were sold.

Although August ended benignly, the volatility witnessed highlighted a fragility in financial markets in that they seem currently priced for an immaculate soft landing, leaving little room for error on the direction of corporate profits or the maintenance of global liquidity and the delivery of interest rate relief.

We remain sceptical about the stagflationary impulse from unfettered and unproductive government. Now the slump in the Chinese economy (and its mercantilist as opposed to the profit seeking capitalist model) is again exporting deflation. Over the last few weeks, we have repositioned the Fund for a weaker global economy.

Although US economic datapoints are often contradictory, not much is improving, whilst new home starts, auto sales, the sub-prime consumer and their credit delinquencies are worsening. With the 3-month rolling average unemployment rate having risen 50bps in less than 12 months, according to the Sahm Rule, which we now know has predicted every US recession since 1970, the current US unemployment rate now points to an imminent recession.

The interest futures market is now certain that the Fed will embark on a new rate cutting cycle at its next meeting on September 18th, with 100bps of cuts now forecast in the three meetings before year end.

We have analysed the previous 11 Fed cutting cycles since 1970 (see Fig 1. "Fed Cutting Cycles since 1970"). As might be expected, the average annualised cutting cycle return has been outstanding (+16%). There is, however, a more mixed picture looking at equity returns in the immediate aftermath of the first cut, with an average return of just +1% in the first 3 months. It might be prudent for investors to keep dry powder.

Fig 1. Fed Easing Cycles Since 1970

Fed Easing Cycles	FOMC Chairman	Start Date	1st Cut (bps)	2nd Cut (bps)	3rd Cut (bps)	Peak Rate (%)	End Date	Trough (days)	Duration (days)	Cycle Cut (bps)	Cycle Cut (%)	Nominal GDP (ms. \$)	Real GDP (p. m.)	Cycle SPI Return (ann.)
Nixon Boom	Burns	01-09-71	-82	-4.8%	-4.8%	5.75	01-03-72	350	182	-225	-39%	4.8%	3.9%	13%
1974 Recession	Burns	03-09-73	-200	-4.7%	-4.0%	11	01-12-78	4.75	1185	-425	-57%	8.9%	8.2%	-6%
Reagan of 1980	Volcker	01-04-80	-850	-5.4%	11.9%	20	09-08-80	9.50	127	-1050	-53%	1.2%	-4.3%	44%
Volcker Disinflation 1	Volcker	16-01-81	-400	1.0%	11.5%	20	29-04-83	8.50	833	-1150	-58%	5.7%	-1.4%	12%
Volcker Disinflation 2	Volcker	02-10-84	-175	8.4%	0.7%	11.75	19-05-87	6.50	959	-525	-45%	5.4%	3.6%	24%
1990 Recession	Greenstein	05-06-89	-12	11.0%	8.6%	8.75	01-02-94	3.00	1704	-675	-69%	4.7%	2.2%	9%
Greenstein Soft Landing	Greenstein	06-07-95	-25	8.8%	2.5%	6	25-03-97	5.25	639	-75	-13%	6.3%	3.9%	29%
1997NA Recession	Greenstein	29-08-98	-75	12.2%	21.6%	6.5	29-09-99	4.75	770	-75	-16%	4.2%	4.8%	45%
DotCom 2001	Greenstein	23-01-01	-100	4.3%	12.1%	6.5	29-08-04	1.00	1245	-550	-68%	4.7%	2.3%	5%
Subprime	Bernanke	18-09-07	-50	3.7%	6.5%	6.25	15-12-15	0.25	3010	-100	-6%	2.8%	1.3%	4%
COVID	Powell	31-07-19	-25	3.8%	1.2%	2.5	18-03-22	0.25	961	-225	-90%	5.8%	3.0%	16%
Average			-175	-4.5%	7%	9	4	1030	-538	-58%	5%	2%	16.3%	

These first few months of a new cutting cycle will also see heightened political risk with the US Presidential election on November 5th. Although the mainstream media likes to focus on the personalities of the candidates, it is more useful for investors to study the differences in the economic agenda.

Trump, ironically, is now something of a known quantity with an agenda to reduce corporation tax to 15% for homegrown companies and fund this by raising tariffs on imports (10-20% across the board and 60% on Chinese goods). This was standard Republican economic policy throughout the nineteenth century.

Harris, by contrast remains something of an unknown quantity, having been parachuted in as a last-minute replacement, when after four years of vigorous service, President Biden, following a poor Presidential debate, was suddenly discovered to be senile.

² Morningstar 31/08/2024, R Accumulation share class performance, in Sterling with net income reinvested

³ Bloomberg 31/08/2024, Calculated by the weighted average of the forecast 12-month forward dividend yield of each holding in the portfolio

Cumulative	1 Month % Growth	YTD % Growth	2023 % Growth	2022 % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	-3.1	9.9	5.2	8.4	5.9	7.1	18.0	-11.2	20.6	79.6
IA Europe ex UK NR	1.2	7.1	13.5	-9.2	15.7	10.7	20.1	-12.4	17.4	76.9
Fund Rank	107/107	19/107	104/108	3/98	91/93	66/98	71/101	35/97	14/92	41/87
Quartile Rank	4	1	4	1	4	3	3	2	1	2

Income peer group performance

Cumulative	1 Month % Growth	YTD % Growth	2023 % Growth	2022 % Growth	2021 % Growth	2020 % Growth	2019 % Growth	2018 % Growth	2017 % Growth	Since Launch % Growth
VT Argonaut Equity Income Fund	-3.1	9.9	5.2	8.4	5.9	7.1	18.0	-11.2	20.6	79.6
Europe ex UK income fund average	1.0	5.9	11.1	-3.7	11.7	3.4	15.7	-11.2	15.7	58.6
Rank	9/9	1/9	9/9	1/10	10/11	5/14	7/16	6/15	3/13	1/8

Source: Morningstar 31/08/2024, R Accumulation share class performance, in Sterling with net income reinvested and no initial charges.

*Comprised of the funds from the IA Europe excluding UK sector which state that they are income funds.

Past performance is not a guide to future performance. The value of shares and any income from them may fall as well as rise and is not guaranteed.

In so far as Harris has been willing to reveal her agenda, she proposes rescinding Trump's 2018 personal tax cuts with additional taxes for those earning more than \$400k; raising the corporate tax rate to 28% and increasing capital gains tax from 20% to 28%; with a 25% minimum tax on those with wealth above \$100m (including unrealised gains). She has also proposed a doubling of the federal minimum wage, quadrupling taxes on share buy backs, banning non-existent "price gouging" and expanding antitrust enforcement.

Whereas Trump supports cheap and reliable energy, Harris will extend "renewable" subsidies. Neither Trump nor Harris sought to appeal to the middle ground by appointing a more conciliatory candidate as their Vice-President. It therefore would be understandable if major business decisions were postponed until the outcome of the election and the full agenda is known.

Excluding the anticipated Reagan landslide in 1984, S&P returns from Labour Day to Election Day since 1972 have been on average negative (-1%) (see Fig 2. S&P Returns from Labour Day to Election Day to Inauguration").

Fig 2. S&P Returns from Labour Day to Election Day to Inauguration

ELECTION DATE	WINNER	PARTY	LOSER	SPX LABOUR DAY TO ELECTION	SPX ELECTION TO INAUGURATION
07-11-1972	NIXON	REP	MCGOVERN	2.2%	4.2%
02-11-1976	CARTER	DEM	FORD	-1.2%	-0.1%
04-11-1980	REAGAN	REP	CARTER	5.4%	4.1%
06-11-1984	REAGAN	REP	MONDALE	36.8%	17.8%
08-11-1988	BUSH GH	REP	DUKAKIS	3.6%	4.6%
03-11-1992	CLINTON	DEM	BUSH GH	1.4%	2.9%
05-11-1996	CLINTON	DEM	DOLE	8.4%	9.8%
07-11-2000	BUSH GW	REP	GORE	-5.8%	-6.3%
02-11-2004	BUSH GW	REP	KERRY	1.5%	4.8%
04-11-2008	OBAMA	DEM	MCCAIN	-24.7%	-12.0%
06-11-2012	OBAMA	DEM	ROMNEY	0.8%	4.8%
08-11-2016	TRUMP	REP	CLINTON H	-2.2%	6.6%
03-11-2020	BIDEN	DEM	TRUMP	-3.4%	13.8%
AVERAGE				1.8%	4.2%
AVERAGE REP				5.9%	5.1%
AVERAGE DEM				-3.1%	3.2%

When Harris ran unsuccessfully in Democratic Primaries, her views were considered more left-wing than Biden's. We have recently seen in the UK that left-wing politicians can be uncannily silent on their real intentions until after they are elected.

What may be at stake in November's election is American "exceptionalism": its trust in free market enterprise and distrust of big government. So-called Democrat "Progressives" want America to be more like Europe, which with its structurally stagnant GDP per capita, is not something any investor should find compelling.

Moreover, given Trump has said he wants to see a weak currency, and both candidates will likely continue to run big deficits, however wins, the outlook for the US dollar is much more uncertain.

We have previously outlined the geopolitical appeal of gold (<https://www.argonautcapital.co.uk/blog/articles/2024/04/22/guns-n-kurtosis-investing-in-the-new-cold-war-era/>) with a reshaping of the global economy into two economic blocks, boosting the appeal of "outside money" with gold – with a market value of \$15trillion – as the most liquid store of value. Geopolitical conflict unlikely to go away, particularly if, as seems likely, Harris is perceived as weak by America's enemies.

Now with real interest rates falling and the greenback weakening, the appeal of gold has increased further. The Fund currently has 12% of NAV in blue-chip gold miners, which despite their ongoing unpopularity, currently not only trade cheaply relative to their history but (according to Argonaut quant models) are displaying the best positive earnings revisions in the stock market. Like George Bernard Shaw, we believe gold is the best hedge against bad government:

"You have to choose between trusting to the natural stability of gold and the natural stability of the honesty and intelligence of the members of the government. And, with due respect to these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold."

Fund Factsheet

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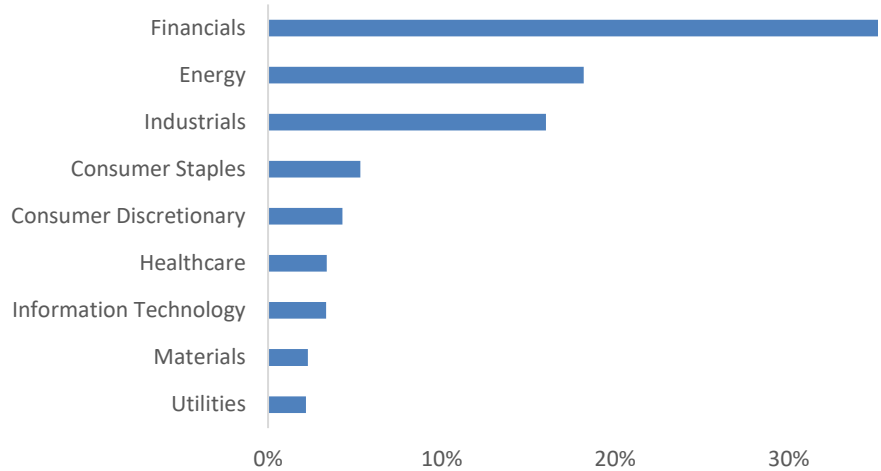
At 31 August 2024

Top Five holdings	Fund %
Hafnia Ltd	6.4
Torm Plc	5.7
Intesa Sanpaolo	4.9
AerCap Holdings NV	4.8
Rheinmetall AG	4.7

Country Breakdown	Fund %
Norway	19.0
Germany	12.0
United States	8.1
Greece	7.6
Netherlands	7.2
Italy	7.2
Denmark	5.7
France	4.8
Other	21.8

Market Cap	Fund %
Large Cap > €5bn	64.6
Mid Cap €1bn – €5bn	28.8
Small < €1bn	0.0
Cash	6.6

Sector Weights



Risk Analysis	Since Launch	1 Year
Beta	0.7	0.6
Standard Deviation (%)	13.3	11.8
Tracking Error	18.1	11.6
Jensen's Alpha	2.3	7.4
Sharpe Ratio	0.5	1.1
Information Ratio	0.0	0.2

Source: Morningstar, all figures at 30/09/2022, these figures are subject to rounding. Date from the 12th May 2005 – 16th July 2012 A class and 16th July 2012 – 30th April 2024 reflects class R units. Tracking error is calculated ex post.

Past Performance is not a guide to future performance. The value of shares and any income from them may fall as well as rise and is not guaranteed.

Source: Argonaut Capital Partners, all figures at 31/08/2024 these figures are subject to rounding. Figures are based on the VT Argonaut European Income Opportunities GBP R Acc share class.

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Investors should refer to the Key Investor Information Document (KIID) and Supplementary Information Document (SID) before investing. For a copy, please telephone Valu-Trac Investment Management Limited on +44 (0) 1343 880 217 or visit www.argonautcapital.co.uk Alternatively write to Valu-Trac Investment Management Limited - Argonaut, Orton, Moray, Scotland, IV32 7QE.

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